



**Northern Hemisphere
Development Corp.**

Interim Financial Statements

For the Three months ended May 31, 2008

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

The accompanying Interim Financial Statements for the three months ended May 31, 2008 and 2007 have not been reviewed or audited by the Company's auditors.

NORTHERN HEMISPHERE DEVELOPMENT CORP.**Consolidated Balance Sheet****As at May 31, 2008**

(Expressed in Canadian dollars)

(Unaudited)

	May 31, 2008	February 29, 2008
Assets		
Current		
Cash and cash equivalents	\$ 136,466	\$ 138,024
Accounts receivable	30,462	80,467
Prepaid expenses	746	2,983
	167,673	221,474
Reclamation Deposit	5,000	5,000
Property and Equipment (note 4)	26,268	28,232
Petroleum and Natural Gas Interests (notes 5 and 6)	2,022,706	2,052,289
	\$ 2,221,647	\$ 2,306,995
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 66,787	\$ 89,739
	66,787	89,739
Asset Retirement Obligation (note 6)	17,213	16,970
	83,998	106,709
Shareholders' Equity		
Capital Stock (note 7)	20,947,796	20,947,796
Contributed Surplus (note 7(e))	4,403,221	4,403,221
Deficit	(23,213,369)	(23,150,731)
	2,137,649	2,200,286
	\$ 2,221,647	\$ 2,306,995
Nature and Continuance of Operations (note 1)		
Contingency (note 12)		

On Behalf of the Board

Signed:

"C.N. O'Sullivan" Director"H.K. Maddison" Director

See accompanying notes to the consolidated financial statements

NORTHERN HEMISPHERE DEVELOPMENT CORP.**Consolidated Statements of Operations and Deficit****Three Months ended May 31, 2008**

(Expressed in Canadian dollars)

(Unaudited)

	Three Months Ended May 31,	
	2008	2007
Oil and Gas Operations		
Gross revenue, Natural gas - British Columbia	\$ 111,679	\$ 151,706
Cost of production	<u>(49,037)</u>	(65,668)
Net revenue, Natural gas - British Columbia	62,642	86,038
Oil and gas revenue, net of cost - Oklahoma	2,156	4,565
Total Revenues - net	64,798	90,603
Administrative Expenses		
Depletion, depreciation and accretion	52,135	2,257
Wages and benefits	27,005	19,891
Professional fees	14,438	2,366
Management and consulting (note 8(a))	13,961	30,000
Office expenses	6,124	5,756
Travel and accommodation	5,142	8,709
Rent	3,898	8,271
Shareholder communication	1,821	4,138
Telephone	1,488	1,178
Transfer agent and filing fees	1,402	1,422
Foreign exchange loss	712	26
Bank charges	279	370
Stock-based compensation	-	98,696
	128,407	183,082
Loss Before Other Items	(63,609)	(92,479)
Other items:		
Interest income	971	7,672
Net Loss for the period	(62,638)	(84,808)
Deficit, beginning of period	(23,150,731)	(21,523,538)
Deficit, end of period	\$ (23,213,369)	\$ (21,608,346)
Loss per share	\$ (0.00)	\$ (0.00)
Weighted Average Number of Common Shares Outstanding	45,929,718	45,498,314

See accompanying notes to the consolidated financial statements

NORTHERN HEMISPHERE DEVELOPMENT CORP.**Consolidated Statements of Cash Flow****Three Months ended May 31, 2008**

(Expressed in Canadian dollars)

(Unaudited)

	Three Months Ended	
	May 31,	
	2008	2007
Net loss	\$ (62,638)	\$ (84,808)
Items not involving cash		
Depletion, depreciation and accretion	52,135	2,257
Stock-based compensation	-	98,696
	(10,503)	16,146
Changes in Non-Cash Working Capital		
Accounts receivable	50,005	(40,489)
Prepaid expenses	2,237	-
Accounts payable and accrued liabilities	(22,952)	11,156
	29,290	(29,333)
Cash Used in Operating Activities	18,787	(13,187)
Investing Activities		
Purchase of equipment	0	(6,241)
Expenditures on petroleum and natural gas interests	(20,345)	(338,968)
Cash Used in Investing Activities	(20,345)	(345,209)
Inflow (Outflow) of Cash	(1,558)	(358,396)
Cash, Beginning of Period	138,024	1,137,717
Cash, End of Period	\$ 136,466	\$ 779,321
Supplemental Cash Flow Information		
Income tax paid	\$ -	\$ -
Interest received	\$ 971	\$ 7,672

See accompanying notes to the consolidated financial statements

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
For the Three Months Ended May 31, 2008
(Expressed in Canadian dollars)
(Unaudited)

1. NATURE OF OPERATIONS AND GOING-CONCERN

Northern Hemisphere Development Corp. (the "Company") was incorporated under the laws of British Columbia. The Company's principal business is the acquisition, exploration, development and production of petroleum and natural gas interests.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going-concern, which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company's continued existence as a going-concern is dependent upon its ability to generate profitable operations or raise adequate financing. The outcome of these matters cannot be predicted at this time and, accordingly, these consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

As at May 31, 2008 the Company had a working capital surplus of \$100,887 (February 29, 2008 - \$131,735) and a cumulative deficit of \$23,213,369 (February 29, 2008 - \$23,150,731).

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

These consolidated financial statements include the Company's integrated wholly-owned subsidiary, Hemisphere Development Corporation, a US corporation. All significant intercompany balances and transactions have been eliminated.

(b) Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term, highly liquid investments that are convertible into known amounts of cash, which are redeemable within 90 days from the original date of acquisition.

(c) Property, Plant and Equipment

(i) Petroleum and natural gas interests

The Company follows the full-cost method of accounting for its petroleum and natural gas interests whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. These costs include lease acquisition costs, geological and geophysical expenses, drilling costs of successful as well as unsuccessful wells and overhead charges related directly to exploration. Separate cost centres are maintained for each country in which the Company incurs costs.

Proceeds received on the sale of property interests are deducted from the full cost pool without recognition of a gain or loss, unless such a disposition would alter the rate of depletion and depreciation by 20% or more.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property, Plant and Equipment (continued)

(i) Petroleum and natural gas interests (continued)

Costs associated with unproven reserves are reviewed by management to determine whether they have become impaired. If impairment occurs, the carrying value of the related interest will be reduced to reflect the estimated net realizable value. The estimate will be based on the then current conditions. It is possible that changes could occur that would adversely affect management's estimates resulting in further write-downs of the carrying value of the interest. Any revenues earned on unproven properties are booked as a recovery of costs on that property.

(ii) Depletion

Depletion of petroleum and natural gas interests and depreciation of production equipment are calculated using the unit-of-production method based upon estimated proved reserves, before royalties, as determined by independent engineers. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proved reserves and excludes the cost of undeveloped properties until it is determined that proved reserves are attributable to the property or impairment has occurred.

(iii) Ceiling test

The costs associated with proved reserves are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves less unproved properties, net of any impairment, exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from proved and probable reserves less unproved properties, net of any impairment. Cash flows are calculated based on estimated future product prices and discounted using the credit adjusted risk-free interest rate. Oil and natural gas assets are evaluated on an annual basis to determine whether the costs are recoverable and do not exceed the fair value of the properties.

(iv) Joint interest operations

The Company's petroleum and natural gas exploration and production activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

(v) Carrying value

The carrying value of petroleum and natural gas interests are not intended to report replacement or current market values.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property, Plant and Equipment (continued)

(vi) Furniture and equipment

Furniture and equipment are recorded at cost. Once the assets are in use, amortization is provided over their estimated useful lives on a declining-balance basis at the following annual rates:

Computers	-	30%
Equipment	-	20%
Furniture	-	20%

(d) Asset Retirement Obligations

The Company recognizes an estimate of the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

(e) Revenue Recognition

Revenue from the sale of petroleum and natural gas is recorded when title passes from the Company to its customers and collectability is reasonably assured. The costs associated with delivery, including operating and maintenance costs, transportation and production-based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded.

Interest income is recorded on an accrual basis at the stated rate of interest of term deposits over the term to maturity.

(f) Foreign Currency Translation

Amounts recorded in foreign currency are translated into Canadian dollars as follows:

- (i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
- (ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Revenues and expenses, at the average rate of exchange by quarter.

Gains and losses arising from the translation of foreign currency are included in net loss for the year.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Income Taxes

The Company uses the asset and liability method for accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis. Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(h) Flow-Through Shares

From time to time, the Company finances a portion of its exploration program with the issuance of flow-through common shares. The tax attributes of qualifying expenditures are renounced to the subscribers of flow-through shares. The tax impact to the Company of the renouncement is recorded on the date that the renunciation is filed with the taxation authorities, through a decrease in the capital stock and the recognition of a future tax liability.

(i) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. However, diluted loss per share is not presented where the effects of various conversions and exercise of options and warrants would be anti-dilutive. Shares held in escrow, other than where their release is subject to the passage of time, are excluded from the computation of loss per share until the conditions for their release are satisfied.

(j) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include collectability of accounts receivable, recoverability of petroleum and natural gas interests, rates of depletion and depreciation, valuation of accrued liabilities and asset retirement obligations, assumptions used in the calculation of stock-based compensation, determination of environmental obligations and valuation allowance for future tax assets. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Stock-Based Compensation

The Company accounts for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this method, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, with a corresponding increase to contributed surplus. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to capital stock.

(l) Financial Instruments

Effective March 1, 2007, the Company adopted Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, "Financial Instruments – Recognition and Measurement", which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The standard requires the Company to account for certain financial assets and liabilities at fair value at each balance sheet date. Financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income.

The adoption of this standard had no impact on the Company's consolidated financial statements.

(m) Comprehensive Income

Effective March 1, 2007, the Company also adopted the CICA Handbook Section 1530, "Comprehensive Income", which establishes standards for presentation and disclosure of comprehensive income. Comprehensive income is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. The historical make up of net income has not changed. Other comprehensive income includes gains or losses, which generally accepted accounting principles requires to be recognized in a period but excluded from net income for that period. The Company has no items of other comprehensive income in any period presented. Therefore, net loss as presented in the Company's consolidated statements of operations and deficit equals comprehensive loss.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Capital Disclosures

Effective March 1, 2008 the Company adopted the CICA Handbook Section 1535, "Capital Disclosures", which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies and procedures for managing capital.

(o) Financial Instruments

Effective March 1, 2008 the Company adopted the CICA's two new standards, Section 3862, "Financial Instruments Disclosures", and Section 3863, "Financial Instruments Presentation".

These sections replace the existing Section 3861, "Financial Instruments Disclosure and Presentation". Section 3862 provides users with information to evaluate the significance of the financial instruments of the entity's financial position and performance, nature and extent of risks arising from financial instruments, and how the entity manages those risks. Section 3863 deals with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances where financial assets and financial liabilities are offset.

(p) Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

(q) Future Accounting Changes

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the years ended December 31, 2010 and earlier where applicable. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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4. EQUIPMENT

PROPERTY AND EQUIPMENT

	Net Value February 29, 2008	Changes in the Period		Net Value May 31, 2008
		Additions	Accumulated Amortization	
Computers	\$ 22,131	-	\$ (1,660)	\$ 20,472
Equipment	\$ 3,065	-	(152)	2,913
Furniture	\$ 3,036	-	(153)	2,883
	\$ 28,232	\$ -	\$ (1,965)	\$ 26,268

5. PETROLEUM AND NATURAL GAS INTERESTS

	May 31, 2008		
	Cost	Accumulated Depletion	Total
Petroleum and natural gas properties	\$ 2,371,485	\$ 348,779	\$ 2,022,706

	February 29, 2008		
	Cost	Accumulated Depletion	Total
Petroleum and natural gas properties	\$ 2,351,140	\$ 298,851	\$ 2,052,289

During the three months ended May 31, 2008, the Company capitalized general and administrative costs of \$20,035 (February 29, 2008 - \$793,271) attributable to acquisition, exploration and development activities. The Company recorded depletion and depreciation of \$49,928 (February 29, 2008 - \$298,851). As at May 31, 2008, costs of \$1,315,138 (February 29, 2008 - \$1,315,138) related to unproved properties were included in petroleum and natural gas interests and were excluded from the costs subject to depletion and depreciation.

In fiscal 2008, the Company performed a ceiling test on its petroleum and natural gas interests and an impairment of \$982,752 was recorded. The impairment tests were calculated by the Company's independent engineering consultant using future prices for the years 2008 to 2012 as follows:

	2008	2009	2010	2011	2012
Natural Gas \$/Mcf	\$ 7.92	\$ 7.89	\$ 7.64	\$ 7.69	\$ 7.76
Propane \$/bbl	\$55.83	\$51.94	\$51.24	\$47.13	\$47.26
Butane \$/bbl	\$70.16	\$65.27	\$64.39	\$59.23	\$60.58
Pentane Plus \$/bbl	\$91.82	\$89.69	\$88.48	\$81.38	\$81.60

Subsequent to 2012 prices are expected to increase by approximately 2% per year.

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6. ASSET RETIREMENT OBLIGATION

The total future ARO was estimated by the Company's independent engineering consultant at February 29, 2008 based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. These payments are expected to be made over the next 8 to 13 years. A credit adjusted risk-free rate of 6.07% was used to calculate the fair value of the obligations on a net present value basis.

	May 31, 2008	February 29, 2008
Asset retirement obligation, beginning of year	\$ 16,970	\$ -
Liabilities incurred	-	16,000
Accretion expense	243	970
Asset retirement obligation, end of year	\$ 17,213	\$ 16,970

7. SEGMENTED INFORMATION

The Company's one reportable operating segment is the acquisition and exploration of petroleum and natural gas properties. Geographic information is as follows:

	May 31, 2008	February 28, 2007
Assets		
Canada	\$ 2,214,835	\$ 2,301,608
United States	6,812	5,387
	\$ 2,221,647	\$ 2,306,995
Revenues		
Canada	\$ 111,679	\$ 425,171
United States	2,156	13,790
	\$ 113,835	\$ 438,961

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8. CAPITAL STOCK

(a) Authorized
 Unlimited number of common shares without par value

(b) Issued and Outstanding

	Number of Shares	Amount
Balance, February 28, 2007	45,929,718	20,952,296
Share subscriptions receivable	-	(4,500)
Balance, February 29, 2008	45,929,718	\$ 20,947,796
Balance, May 31, 2008	45,929,718	\$ 20,947,796

During the three months ended May 31, 2008, the Company did not issue any shares.

(c) Stock Options

The Company has a formal plan for the granting of stock options in the form of a Rolling Stock Option Plan. The Company received TSX Venture Exchange ("TSX") approval of this plan on November 23, 2004. Pursuant to the policies of the TSX, the Company may grant incentive stock options to officers, directors, employees and to persons in consideration for services. Stock options must be non-transferable and the aggregate number of shares that may be reserved for issuance may not exceed 10% of the issued shares at the time of grant and to each individual may not exceed 5% of the issued shares. The exercise price of stock options is determined by the board of directors of the Company at the time of grant and may not be less than the average closing price of the Company's shares on the ten trading days immediately preceding the day on which the option is granted and publicly announced, and may not be less than \$0.10 per share. Options have a maximum term of ten years and terminate not later than 30 days following the termination of the optionee's employment, except in the case of retirement, death or disability, in which case they terminate one year after the event. Vesting of the options is determined at the time of granting of the options at the discretion of the board of directors. Once approved and vested, options are exercisable at any time.

For the three months ended May 31, 2008, the Company has recognized \$nil (May 31, 2007 - \$98,696) in stock-based. The fair value of stock options used to calculate compensation expense is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

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8. CAPITAL STOCK (Continued)

(c) Stock Options (continued)

	May 31, 2008	Feb 29/08
Expected life (years)	-	2.34
Interest rate	-	4.07%
Volatility	-	87.29%
Dividend yield	-	0.00%

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

Details of the status of the Company's stock options as at May 31, 2008 and February 29, 2008 are as follows:

Exercise Price	Expiry Date	Balance Outstanding & Exercisable			Expired/ Cancelled	Balance Outstanding & Exercisable	
		Feb 29, 2008	Granted	Exercised		May 31, 2008	
\$0.73	17-Mar-08	101,460	-	-	(101,460)		-
\$0.69	22-Mar-08	1,274,394	-	-	(1,274,394)		-
\$0.50	1-Jul-08	400,000	-	-	-		400,000
\$0.71	30-Sep-08	70,000	-	-	-		70,000
\$0.50	11-Jan-09	452,564	-	-	-		452,564
\$0.30	30-Mar-09	735,000	-	-	(50,000)		685,000
\$0.35	17-Apr-09	117,575	-	-	-		117,575
\$0.45	23-Feb-10	25,000	-	-	-		25,000
\$0.30	13-Jul-10	200,000	-	-	-		200,000
\$0.15	7-Dec-10	200,000	-	-	-		200,000
		3,575,993	0	0	(1,425,854)		2,150,139
Weighted average exercise price		\$ 0.50	\$ 0.27	\$ -	\$ 0.68		\$ 0.38

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8. CAPITAL STOCK (Continued)

(d) Contributed Surplus

Balance, February 28, 2007	\$ 4,259,952
Stock-based compensation	143,269
Balance, February 29, 2008	4,403,221
Stock-based compensation	-
Balance, May 31, 2008	\$ 4,403,221

9. RELATED PARTY TRANSACTIONS

These transactions are in the ordinary course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

- (a) Rent in the amount of \$4,500 was received from a company with common directors for shared office facilities.

10. FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

(a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint interest partners and oil and natural gas marketers.

Receivables from petroleum and natural gas markets are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships, in conjunction with its operator, with purchasers that sell to A+ credit worthy customers. The Company historically has not experienced any collection issues with its operator and natural gas marketers.

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Cash and cash equivalents consist of cash bank balances and short-term deposits. The Company manages the credit exposure related to short-term investments by selecting low risk investments with reputable banks or financial institutions.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Company has not provided for an allowance for doubtful accounts as at the period end.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual capital expenditure budgets which are regularly monitored and updated as considered necessary. Additionally, the Company utilizes authorization for expenditures on both operated and non-operated projects to further manage capital expenditures.

(c) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas could be impacted by changes in the exchange rate between the Canadian and United States dollar. This indirect exposure to foreign currency exchange rate risk is minimal and cannot be accurately quantified.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also world economic events that dictate the levels of supply and demand. The Company does not have any forward pricing contracts and its future cashflows will fluctuate with changes in commodity prices of natural gas and natural gas liquids.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company had no interest rate swap or related financial contracts in place as at or during the period ended May 31, 2008.

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(Unaudited)

11. Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company considers its capital structure to include shareholders' equity and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage working capital levels. This overall objective and policy for managing capital remained unchanged in the first quarter ending May 31, 2008 from prior reporting periods.

To manage its working capital, the Company the Company prepares annual budgets which are updated as necessary depending on factors including current and forecast prices, successful capital deployment and general industry conditions. The Company also monitors its working capital with review of its working capital position reports prepared on a weekly basis.

The Company's share capital is not subject to external restrictions.

Fair value of financial instruments

The Company's financial instruments as at March 31, 2008 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity.

12. CONTINGENCY

In March 2005, the Company received a notice from the Operator of one of its petroleum and natural gas interests requesting additional funding in the amount of \$160,214. The Company believes this amount is in excess of the amounts authorized for expenditures for payment under the Company's agreement with the Operator. The amount of this contingency has not been accrued in these financial statements as it is the Company's position that the Operator's request is without merit.



Management Discussion and Analysis

For the Three Months ended May 31, 2008

NORTHERN HEMISPHERE DEVELOPMENT CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Three Months ended May 31, 2008

The following discussion and analysis of the operations, results, and financial position of Northern Hemisphere Development Corp. ("Northern Hemisphere" or the "Company"), for the three months ended May 31, 2008 should be read in conjunction with the May 31, 2008 Consolidated Financial Statements and the related Notes. These documents are available at www.sedar.com. The effective date of this report is July 28, 2008.

Northern Hemisphere is engaged in the exploration, development and production of oil and natural gas. The Company currently has natural gas production from four Triassic Halfway wells in the Trutch area of northeastern British Columbia. The Company is traded on the TSX Venture Exchange under the symbol NHD.

FORWARD LOOKING STATEMENTS

This document contains forward-looking statements. Certain information regarding the Company presented in this document, including estimates, future plans, expectations, opinions, forecasts and projections may constitute forward-looking statements under applicable securities law and necessarily involve risk associated with oil & gas exploration and development. Events or circumstances may cause actual results to differ materially from those predicted as a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company. The reader is cautioned not to place undue reliance on this forward-looking information.

Use of the term boe may be misleading, particularly if used in isolation. Petroleum and natural gas volumes and reserves are converted to a common unit of measure, referred to as a barrel of oil equivalent (boe), using a ratio of 6,000 cubic feet of natural gas to one barrel of oil. This conversion ratio is based on the energy equivalency at the burner tip and does not necessarily represent a value equivalency at the wellhead.

OVERVIEW

Trutch (Northeast British Columbia)

Northern Hemisphere has a working interest varying from 10.5% - 35% in approximately 15,000 gross acres (~6,070 ha) of the Trutch Property which is located approximately 200 kilometres northwest of Fort St. John in British Columbia. Competitors to the east and south of the Trutch area have been actively exploring and developing the prolific Tommy Lakes Halfway gas field for a number of years. Northern Hemisphere currently has an interest in four Halfway gas wells in Trutch and recognizes multi-zone potential in the area.

In October 2007, the Company executed documents with Tenaka Drilling Consortium Ltd. (Agent and Farmee into the Master Agreement for The Bougie Trutch and Trutch East lands) whereby Tenaka assigned, transferred and conveyed an undivided 35% of Tenaka's interest in the Master Agreement to the Company. The documents were accepted and ratified by Enerplus Resources Fund, formerly Focus Energy Trust, (the Farmor and Operator) and the binding date for novation was January 1, 2008. Novation enables the Company to directly communicate and plan with the operator regarding all aspects of the drilling and exploration programs, as well as receive cashflow statements, accounting and revenues directly from the Operator.

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Oklahoma

The Company also has a small minority interest in certain oil and gas producing wells situated in the State of Oklahoma, USA. The interest in these properties was written down to nil in 1990 and the Company will not carryout any further expenditures on these wells.

RESULTS OF OPERATIONS

Production

With four Halfway wells onstream in the Trutch area, Northern Hemisphere's average production rate for the three months ended May 31, 2008 was 21.7 boe per day. The Company's average production rate for the three months ended May 31, 2007 was 34.6 boe per day.

Comparison of the Three months ended May 31, 2008 and May 31, 2007

The Company reported a net loss for the three months ended May 31, 2008 of \$62,638 or \$0.014 per share compared to \$84,808 or \$0.019 per share for the previous year. The Company is in full production on four of its natural gas wells and has received natural gas production revenue for its working interest in the Trutch property since February 2007.

Revenues

The Company generated total gross revenues of \$113,835 for the three months ended May 31, 2008 (2007 -\$156,271). The production revenue for the northeastern British Columbia wells was \$111,679 for the quarter, consisting of \$101,239 in natural gas and \$10,439 in natural gas liquids. The net revenue after production, processing, transportation, marketing and royalty cost was \$62,642 (2007 - \$86,038). In addition the Company continues to receive oil and gas revenues from its minority interest wells in Oklahoma, USA which were \$2,156 net of costs for the three months ended May 31, 2008 (2007 - \$4,565). Total net revenues reported for the period were \$64,798 (2007 - \$90,603).

Revenues	Q1	Units	\$/unit	boe/d	Revenue	
	31-May-08	Q1	Q1	Q1	Years Ended	
	31-May-08	31-May-08	31-May-08		29-Feb-08	28-Feb-07
BC - NGL's (bbl)	\$ 10,439	162.41	\$ 64.28	1.8	\$ 53,626	\$ -
BC - Natural gas (mcf)	101,239	11,016	\$ 9.19	20.0	371,545	-
Oklahoma - minority int.	2,156	n/a	n/a	n/a	13,790	10,294
Production revenue	\$ 113,835			21.7	\$ 438,961	\$ 10,294

NORTHERN HEMISPHERE DEVELOPMENT CORP.
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Production Costs

Total production costs for the three months ended May 31, 2008 were \$49,037 (2007 – \$65,668), or \$24.54 per boe (2007 – \$20.61). The Companies production costs are categorized in three main areas of royalties, operating costs and transportation costs.

Royalties for the three months ended May 31, 2008 were \$25,904, or \$12.96 per boe, which represents 22.8% of revenues. The Company incurred crown royalties with the Province of British Columbia at a rate of 20% on NGLs and an average of 11.1% on natural gas. Gross over-riding royalties are also included in the royalty expenses at an average of 11.3% of all BC production revenue. The crown royalties on the three initial Trutch wells are now reclassified under the marginal royalty incentive on completion of one year's production in March 2008. This categorizes the three wells in a lower royalty bracket for the crown calculations which has reduced the royalties on natural gas by approximately 8%.

Operating costs were \$21,261 for the quarter which equates to \$10.64 per boe on a unit of production basis. These include all costs for gathering, processing, dehydration and compression of the gas, as well as marketing fees. Additional costs were incurred this quarter for flow line repairs.

Transportation expenses are expenses incurred by the Company to transport production volumes to the market in coordination with the Company's operator. Transportation costs were \$1,871 for the quarter representing \$0.94 per boe.

Operating netback	Dollars	% of	\$/boe	Dollars	% of Rev	\$/boe
	Q1	Revenue	Q1	Year Ended 29-Feb-08		
	31-May-08		31-May-08			
Revenue	\$ 113,835	100%	\$ 56.96	\$ 438,961	100%	\$ 48.35
Royalties	25,904	22.8%	\$ 12.96	131,931	30.1%	\$ 14.53
Operating costs	21,261	18.7%	\$ 10.64	65,072	14.8%	\$ 7.17
Transportation	1,871	1.6%	\$ 0.94	10,082	2.3%	\$ 1.11
Production costs	49,037	43.1%	\$ 24.54	207,085	47.2%	\$ 22.81
Totals	\$ 64,798	56.9%	\$ 32.42	\$ 231,876	52.8%	\$ 25.54

General and Administrative

Total administrative expenses, before other items, decreased by \$54,675 to \$128,407 for the three months ended May 31, 2008 from \$128,407 in 2007. This is due primarily to changes in the following expenses:

Depletion, depreciation and accretion was recorded at \$52,135 for the three months ended May 31, 2008 (2007 – \$2,257). Of this amount, \$49,928 is for depletion of the Company's four producing wells. These non cash expenses are computed on the basis of an independent evaluation report of which the Company received its first such evaluation from Sproule Associates in May 2008. Depreciation was recorded on the Company's equipment in the amount of \$1,965 for the quarter and \$243 was also

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recorded for accretion expense on the Company's asset retirement obligation for its producing wells.

Management and consulting fees decreased by \$16,039 to \$13,961 for the three months ended May 31, 2008 from \$30,000 in 2007 due to the termination of management fees paid to two directors effective March 1, 2008. Whereas, wages and benefits increased by \$7,114 to \$27,005 for the three months ended May 31, 2008 from \$19,891 in 2007, which is due primarily to the addition wages for a petroleum geologist to the Company.

Professional fees increased by \$12,072 to \$14,438 for the three months ended May 31, 2008 from \$2,366 in 2007. This is primarily for additional fees relating to the reserves evaluation report and additional audit work.

Stock based compensation decreased by \$98,696 to \$nil for the three months ended May 31, 2008 from \$98,696 in 2007 as there were no stock options issued by the Company during the first quarter in 2008.

Other Items

In other items, the Company recorded \$971 for interest income during the three months ended May 31, 2008 for a decrease of \$6,701 compared to \$7,672 for the three months ended May 31, 2007 due to a reduction in cash amounts retained on deposit.

SELECTED ANNUAL INFORMATION

The following are highlights of financial data on the Company for the most recently completed three financial years:

	Fiscal Year Ended February 28,		
	2008	2007	2006
(Loss) Income before Income Tax	\$ (1,627,193)	\$ (2,545,928)	\$ (6,928,136)
Net Loss	(1,627,193)	(2,545,928)	(6,928,136)
Loss Per Share	(0.04)	(0.06)	(0.18)
Total Assets	2,306,995	3,780,582	6,166,770
Total Liabilities	106,709	96,372	132,271
Working Capital	131,735	1,092,724	2,820,556

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SUMMARY OF QUARTERLY RESULTS

	2008	2008	2007	2007	2007	2007	2006	2006
	31-May Q1	29-Feb Q4	30-Nov Q3	31-Aug Q2	31-May Q1	Feb. 28 Q4	30-Nov Q3	Aug. 31 Q2
Total revenue	113,835	119,481	81,753	81,455	156,271	3,553	1,619	2,869
Income (loss) before extraordinary items	-63,609	-445,641	-43,055	-97,983	-92,479	-172,445	-59,991	-75,506
Basic loss per share	0.00	-0.01	0.00	0.00	0.00	-0.04	-0.01	0.00
Diluted per share	0.00	-0.01	0.00	0.00	0.00	-0.04	-0.01	0.00
Net income (loss)	-62,638	-1,427,280	-26,455	-88,654	-84,808	-1,592,844	-332,654	-74,275
Basic per share	0.00	-0.03	0.00	0.00	0.00	-0.04	-0.01	0.00
Diluted per share	0.00	-0.03	0.00	0.00	0.00	-0.01	0.00	-0.01

SHARE CAPITAL AND FINANCING ACTIVITIES

During the period, the Company did not issue any shares nor exercise any options. At July 28, 2008, the Company had 45,929,718 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company has funded its operations through equity financing and the exercise of options and warrants. The Company has working capital of \$100,887 at May 31, 2008. The Company believes it will have to raise further funds by way of brokered/non-brokered private placements in order to finance corporate expenses and ongoing development of the Trutch property, as well as future growth opportunities.

RELATED PARTY TRANSACTIONS

These transactions are in the ordinary course of business and are recorded at the exchange amount that was agreed between the parties.

- (a) Rent in the amount of \$4,500 was received for office premises from a company with common directors.
- (b) Any amounts incurred from/to related parties, are non-interest bearing, unsecured and due on demand.

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CORPORATE INTERNAL CONTROLS

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at May 31, 2008 and has concluded, based on its evaluation, that these controls and procedures provide reasonable assurance that material information relating to the Company is made known to management and reported as required. Management is also responsible for the design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management believes the design to be sufficient and appropriate to provide such reasonable assurance.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet transactions.

PROPOSED TRANSACTIONS

At the effective date the Company does not have any proposed transactions to disclose.

CRITICAL ACCOUNTING ESTIMATES

a) Resource Properties

(i) Petroleum and natural gas interests

The Company follows the full-cost method of accounting for its petroleum and natural gas interests whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. These costs include lease acquisition costs, geological and geophysical expenses, drilling costs of successful as well as unsuccessful wells and overhead charges related directly to exploration. Separate cost centres are maintained for each country in which the Company incurs costs.

Proceeds received on the sale of property interests are deducted from the full cost pool without recognition of a gain or loss, unless such a disposition would alter the rate of depletion and depreciation by 20% or more.

Costs associated with unproven reserves are reviewed by management to determine whether they have become impaired. If impairment occurs, the carrying value of the related interest will be reduced to reflect the estimated net realizable value. The estimate will be based on the then current conditions. It is possible that changes could occur that would adversely affect management's estimates resulting in further write-downs of the carrying value of the interest. Any revenues earned on unproven properties are booked as a recovery of costs on that property.

(ii) Depletion

Depletion of petroleum and natural gas interests and depreciation of production equipment are calculated using the unit-of-production method based upon estimated proved reserves, before royalties, as determined by independent engineers. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proved reserves and excludes the cost of undeveloped properties until it is determined that proved reserves are attributable to the property or impairment has occurred.

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(iii) Ceiling test

The costs associated with proved reserves are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves less unproved properties, net of any impairment, exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from proved and probable reserves less unproved properties, net of any impairment. Cash flows are calculated based on estimated future product prices and discounted using the credit adjusted risk-free interest rate. Oil and natural gas assets are evaluated on an annual basis to determine whether the costs are recoverable and do not exceed the fair value of the properties.

(iv) Joint interest operations

The Company's petroleum and natural gas exploration and production activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

(v) Carrying value

The carrying value of petroleum and natural gas interests are not intended to report replacement or current market values.

b) Asset Retirement Obligations

The Company recognizes an estimate of the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

c) Revenue Recognition

Revenue from the sale of petroleum and natural gas is recorded when title passes from the Company to its customers and collectability is reasonably assured. The costs associated with delivery, including operating and maintenance costs, transportation and production-based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded.

Interest income is recorded on an accrual basis at the stated rate of interest of term deposits over the term to maturity.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities and amounts owing to related parties. Terms of the financial instruments are fully disclosed in the Company's consolidated financial statements. Management's opinion is that the Company is not exposed to significant interest, currency, or credit risks arising from its financial instruments and that, unless otherwise noted, their fair values approximate their carrying values.

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RISKS

Oil and gas exploration and development involves a high degree of risk and many properties are ultimately not developed to a producing stage. There can be no assurance that the Company's future exploration and development activities will result in discoveries of commercial bodies of oil and gas. Whether an oil and gas property will be commercially viable depends on a number of factors including the particular attributes of the reserve and its proximity to infrastructure, as well as commodity prices and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, and environmental protection. The exact effect of these factors cannot be accurately predicted, and the combination of these factors may result in an oil and gas property not being profitable.

DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The following table is a breakdown of the material components listed for the three most recently completed financial years:

	Fiscal Year Ended February 28,		
	2008	2007	2006
Capitalized acquisition, exploration and development costs	\$794,955	\$1,559,142	\$1,777,672
Stock-based compensation	143,269	36,487	4,211,904
Shares issued for cash, net of issue costs	0	121,650	3,522,427
General and administration costs	767,765	350,483	594,158

CONTINGENCY

In March 2005, the Company received a notice from the operator of the deep test well at the Bougie Trutch property requesting additional funding in the amount of \$160,214 for payment of expenditures. In 2007, the Company requested an external audit of this well from the operator as it is the Company's position that the operator's request is without merit. The Company believes it has not received sufficient documentation from the operator to justify payment of the expenditures on the premise.

LIST OF DIRECTORS AND OFFICERS

Charles O'Sullivan, B.Sc., Director and Chairman
 Don Simmons, B.Sc., P.Geol, Director, President and CEO
 Dorlyn Evancic, CGA, Chief Financial Officer
 Alan Crawford, MBA, Director
 Frank Borowicz, QC, CA (Hon), Director
 Ken Maddison, FCA, Director
 Gregg Vernon, B.Sc., P.Eng, Director

ADDITIONAL INFORMATION

Additional information relating to the Company is available on SEDAR at www.sedar.com.